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TO RUEHC/SECSTATE WASHDC 0356
INFO RUEHCG/AMCONSUL CHENNAI 2413
RUEHCI/AMCONSUL KOLKATA 1726
RUEHLH/AMCONSUL LAHORE 4298
RUEHBI/AMCONSUL MUMBAI 1518
RUEHPW/AMCONSUL PESHAWAR 4762
RUEHIL/AMEMBASSY ISLAMABAD 4509
RHEBAAA/DEPT OF ENERGY WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RULSDMK/DEPT OF TRANSPORTATION WASHDC
RHMFIUU/FAA NATIONAL HQ WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE WASHDC
RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE

UNCLAS SECTION 01 OF 04 NEW DELHI 000425

SIPDIS

SENSITIVE
SIPDIS

C O R R E C T E D C O P Y - CORRECTING DATES IN SUBJECT LINE

USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR
DEPT PASS TO USTR CLILIENTFELD/AADLER
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA ABAUKOL
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
STATE FOR SCA/INS AND EB/TRA JEFFREY HORWITZ AND TOM ENGLE
USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER

E.O. 12958: N/A

TAGS: [EAGR](#) [EFIN](#) [EINV](#) [EPET](#) [ETRD](#) [SENV](#) [IN](#)

SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF
FEBRUARY 4 - FEBRUARY 8, 2008 (CORCY)

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11. (U) Below is a compilation of Economic highlights from Embassy
New Delhi for the week of February 4-8, 2008.

WTO SIDES WITH INDIA
ON WINE TAXES

12. (U) The Business Standard reported Thursday that a World Trade
Organization (WTO) dispute-settlement panel dismissed the United
States' complaint against India over excise duties on foreign wines
and spirits, determining that these duties are not cross-border
measures. When India repealed its additional customs duties on
wines and spirits in July 2007, the European Union suspended its
similar case with the WTO, but the U.S. pushed for a formal ruling,
leading to this week's decision.

GOI CONSULTING INDUSTRY ON TRADE
IN REMANUFACTURED GOODS

13. (U) According to The Hindu, the GOI has initiated discussions
with industry stakeholders to clarify the definition of
'remanufactured goods' and formulate a prudent stance on their
import in preparation for further discussions on the Doha Round.
Commerce Additional Secretary Rahul Khullar explained that in
addition to concerns about safety, dumping, and unfair price
competition, India will have to consider its potential for exports
in remanufactured goods, as India does not currently have many
well-known brands likely to appeal to other countries' consumers.
With developed countries eager to ship remanufactured goods to the
Indian market, therefore, a liberalized policy on trade in
remanufactured goods may be to India's disadvantage. The current

Foreign Trade Policy permits the import of remanufactured goods only with a license but does not stipulate a definition for the category.

WAL-MART TO OPEN CASH-AND-CARRY
OUTLET BY JUNE

14. (U) Wal-Mart announced this week that it will open its first cash-and-carry outlet in Ludhiana, Punjab, by June 2008. The facility will be only 80,000 square feet, versus the 1 million square feet typical of the company's U.S. stores, and will carry mostly food and groceries. This outlet will sell to wholesale buyers rather than directly to end consumers, as foreign direct investment is prohibited in multi-brand retail, and it will feed the Bharti retail outlets that will open under a joint venture with Wal-Mart. Andrew Sherman, who has served as legal counsel throughout the formation of the Bharti-Wal-Mart joint venture, told Econoffs that the first of these retail outlets will open within two months, with produce drawn from alternate sources until the Wal-Mart wholesaler opens.

GOI SEEKS PREFERENCE FOR
GEMS AND JEWELRY

15. (U) The GOI hopes to get Indian gems and jewelry back under the U.S. general system of preferences (GSP), after losing the designation in 2007 because U.S. imports from India passed the statutory maximum threshold of USD 1.87 billion. India's Gem & Jewelry Export Promotion Council (GJEPC) argues that the appreciating rupee, along with the 6.7-percent import duty imposed since the loss of GSP status, has significantly impacted Indian exports and caused substantial job loss. The latest trade data shows that Indian exports of diamonds and precious stones to the U.S. grew 26 percent in the first 11 months of 2007, but the GJEPC contends that the bulk of those exports shipped in the first half of the year, before the GSP adjustments were finalized, and therefore do not reflect the impact of the change in GSP status. Commerce

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Joint Secretary Mukim assured DepEconCouns on Thursday that his ministry would provide figures to support the export council's contention.

BILATERAL TRADE GAP REDUCED

16. (U) U.S. exports to India rose 75 percent through November 2007 to USD 15.85 billion, with growth of approximately 34 percent in aviation and aircraft, 20 percent in engineering goods and machinery, and 11 percent in precious stones and metals. Meanwhile, Indian exports to the U.S. rose by a relatively modest 10.9 percent to USD 22 billion, resulting in a sharp reduction of the U.S.'s bilateral trade deficit.

COMMERCE MINISTER SPIES
DOHA DIVERGENCE

17. (U) Commerce Minister Kamal Nath said Thursday that while there has been significant progress made in the past year on the WTO's Doha Round, developed and developing countries could reach an impasse if developed countries do not make stronger commitments on trade-distorting agricultural subsidies. Nath further stated that it might be possible to reach an agreement by the end of this year but that to achieve that aim, negotiators must make comparable progress on non-agricultural market access, services, and rules as well.

CLINICAL TRIALS FOR AIDS
VACCINE HALTED

18. (U) India's first domestically engineered AIDS vaccine, a

formula using the adeno-associated virus vector being tested at the National AIDS Research Institute, elicited an immune response of only 20 percent in Phase I clinical trials, falling short of the threshold for continuation to Phase II testing. Responses were similar even where researchers administered boosters. The vaccine failed to reach desired standards in humans despite producing high immune responses in animal testing.

FOOD-PROCESSING MINISTRY
TARGETS FOOD PARKS

¶9. (U) In a meeting Thursday, Secretary Suvrathan of the Ministry of Food Processing Industries (MOFPI) informed USTDA Regional Director for South and Southeast Asia Henry Steingass that MOFPI plans to help finance 30 food parks across the country to develop cold chains for food-processing industries. Suvrathan said MOFPI will contribute INR 500 million (USD 12.8 million) and seek private-sector funding of INR 4 billion (USD 102.4 million) for each park. Suvrathan said that MOFPI will launch the first five soon, including parks in Andhra Pradesh, Maharashtra, and Jharkand. In addition to cold-chain development, MOFPI hopes the parks will help facilitate communication between farmers and retailers, and he said that the Ministry might move on to marine parks if the initial parks are successful. Suvrathan suggested that these parks represent an excellent opportunity for foreign investors.

BOEING AND TALMSL PARTNER
ON MANUFACTURING

¶10. (U) On Wednesday, Boeing Company and TAL Manufacturing Solutions Ltd. (TALMSL), a subsidiary of Tata Motors, agreed to work together on the manufacture of structural components for the 787 Dreamliner airplane. The newly formed partnership calls for TALMSL to build floor beams using advanced titanium and composite

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materials. The floor beams will be manufactured in TALMSL's facility in Nagpur and then transported to Boeing partners in Japan, Italy, and the U.S. for assembly. Carolyn Corvi, Vice-President and General Manager of Airplane Programs for Boeing Commercial Airplanes, hoped that the new partnership between Tata Motors and Boeing would "increase the value of the 787 to our customers, helping to make it the world's leading commercial airplane."

WIPRO TO ENTER DEFENSE MARKET

¶11. (U) Wipro, India's third largest software services company, announced that it plans to build electronic warfare systems, radars, flight stimulators, and other defense-sector communication systems for U.S. defense contractors such as Lockheed Martin and Northrop Grumman. Under the GOI's defense policy, foreign contractors must source components and systems from Indian companies for at least 30% of the value for orders from the Indian military of over INR 3 billion (approximately USD 77 million), and Wipro is pursuing offset contracts in anticipation of increasing defense revenues. India is expected to import USD 30 billion in defense equipment through 2012, particularly multi-role fighter jets, artillery, helicopters, and long-range maritime spy aircraft, and the Ministry of Defense projects that Indian companies will receive offset contracts from global military equipment makers for a total of INR 400 billion (USD 10.3 billion) through 2011. Wipro has already taken the first step in asking the GOI for permission to enter defense production through offset contracts.

¶12. (U) Finance Minister Chidambaram expects India's economy to grow at 9.0 percent in 2007-2008, with the help of rising foreign and domestic investment, and stated that he is prepared to make rapid policy adjustments to sustain high levels of growth in a time of global economic uncertainties.

HYUNDAI OPENS NEW FACTORY;
SOME WORKERS PROTEST

¶13. (U) Hyundai inaugurated its second automobile manufacturing facility in Chennai, which will ramp up the Korean carmaker's India production capacity to over 500,000 units per year, mainly for export. The new facility, collocated with Hyundai's existing plant, will produce 57 cars an hour and employ an additional 7500 workers. With this USD 1 billion investment, Hyundai's total stake in Chennai is now USD 1.73 billion. The gala opening of the facility, attended by Consulate Chennai, featured both the head of Hyundai Motors and the Chief Minister of Tamil Nadu.

¶14. (U) During the opening ceremonies, some 100 workers fired by the company for "poor performance" staged a demonstration at the plant. Police detained them for demonstrating without a permit, but released them after the ceremony. Local trade union leaders allege, however, that the company gave the workers their pink slips because they attempted to form a union at the factory.

INTEL ENTERS LOW-COST COMPUTING
WITH USD 1 BILLION INVESTMENT

¶15. (SBU) Chipmaker Intel is formally entering the low-cost computing market. Intel India's head of corporate affairs told Consulate Chennai that the company plans to invest USD 1 billion over three years to work with Indian hardware vendors like HCL, Wipro, and Zenith to produce low-cost, light-weight computer platforms that will enable customers to access the web cheaply. Intel also plans to work with local assemblers to develop both technical and marketing capacities. Intel will also focus its investment on developing low-cost WiMAX (a wireless telecommunications technology intended to replace cable and DSL) capabilities. On the corporate social responsibility front, Intel

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signed a memorandum of understanding with the Tamil Nadu government to provide low-cost internet connectivity to 22 schools across the state.

CHENNAI TO GO AS SMOKELESS AS NYC

¶16. (U) Local press reports that the government of Tamil Nadu plans to turn the state into a (tobacco) smoke-free zone by 2010, with the help of funds provided by New York City Mayor Michael Bloomberg. Tamil Nadu's director of public health told the press that his department had secured a slice of the USD 125 million offered by the New York City administration to battle tobacco. Tamil Nadu, which already bans smoking in public places, will use the funds to increase awareness and enforce the law more vigorously.

NEW SURVEY ON "HOW INDIA EARNS,
SPENDS AND SAVES"

¶17. (SBU) Montek Singh Ahluwalia, Deputy Chairman of the Planning Commission, this week released a report on a 2005 survey conducted by Max New York Life and National Council of Applied Economic Research (NCAER) on "How India earns, spends and saves" to understand the changes in income trends. The sample size used for the survey included 63,016 households in 24 states out of which 31,446 were rural and 31,570 urban. The survey indicated that around 22.3% households control 51% of India's total income. This group's per capita income is \$829 annually, about nine-times the lowest income level-segment of 17.9 per households whose annual per capita income is \$88. Urban family income stands at \$2396/year which is 85% higher than the rural family income of \$1298/year. Delhi is the richest state with an annual average per capita income of \$728, versus Bihar, the poorest state, with a per capita income of just \$156. According to Max New York Life-NCAER survey, using state-wise expenditure poverty lines for FY 2004-05, 20.8% of the population or 214 million people are poor, while the most recent consumption-based poverty assessments indicated 26 percent of Indians were below the poverty line. The incidence of rural income poverty is 21.7% versus urban poverty at 18.7%.

¶18. (SBU) An average Indian spends at least 12.2% of his income on weddings and social ceremonies. About 81% of the Indians save for the future out of which 63% of the households save for social ceremonies. Income level influences the saving pattern, while savings behavior is decided by education levels and occupation. An average urban family saves about \$669 while a rural one saves \$290 on an average. Due to the lack of an efficient social security system, over 80% of Indians save but less than a fourth of these savings are done in financial instruments. While two-thirds of all savings are kept in the form of liquid cash - cash, bank and post office deposits - around one-fifth of all investments are in the form of premiums on insurance policies, as compared to just 70% in the case of shares and debentures.

¶19. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>

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